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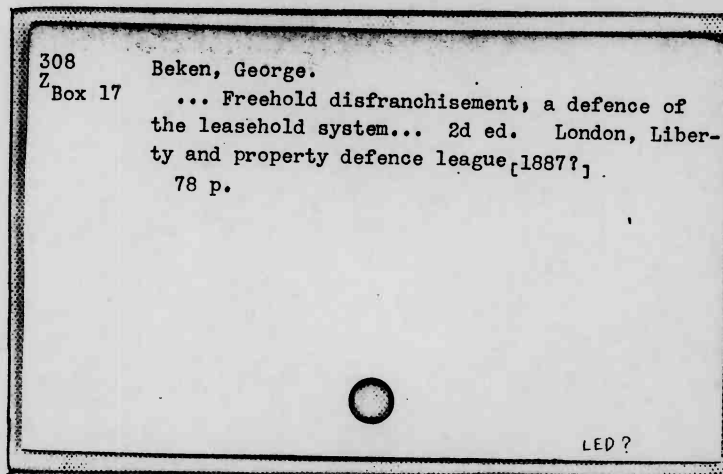
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FREEHOLD

DISFRANCHISEMENT.

A Defence of the Leasehold System.

By GEORGE BEKEN.

General Offices of the
DEFENCE LEAGUE,
LONDON, S.W.

2nd Edition.

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A Defence of the Leasehold System.

By GEORGE BEKEN.

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FREEHOLD DISFRANCHISEMENT.

A BODY styling themselves the “Leaseholds Enfranchisement Association,” have for some time been agitating against the ground-rent system. In a recently issued pamphlet, they boast that they failed with satisfaction the appointment of the Royal Commission to inquire into the Housing of the Working Classes, being confident that it would lead to the condemnation of that system. Three of their members, including Messrs. Broadhurst and Jesse Collings, were appointed on the Royal Commission, and it is not, therefore, surprising to find them, with seven other members, mostly better known for their philanthropic proclivities than their judicial acumen, signing a supplementary report in harmony with the wishes of the “Leaseholds Enfranchisement Association.” On the other hand, six members of the Royal Commission, not including the Prince of

Wales, did not sign the said supplementary report, and one of the principal witnesses, upon its appearance, wrote that his views had been misrepresented. What is the inference from all this—certainly not that the supplementary or “Majority Report,” as it is called, is, without question, to be accepted as worthy of confidence, yet this is the much vaunted “condemnation by Royal Commission of the leasehold system,” of which we have been hearing so much. In these pages it is proposed to examine cursorily the principal allegations against the leasehold system, and the legislation that is being recommended; incidentally to which, the system will be shortly explained.

The Reversion to Freeholder;—a “Mutual Restoration.”

London building leases are generally for a term of 80 or 99 years, at the end of which the property reverts to the freeholder.* In reference to this

* In some parts of the country building leases are usually granted for longer terms, say, 500, 900, or 999 years, or the land is let subject to a Perpetual Rent Charge. The term is sometimes shorter, say 60, 40, or 30 years; but it may be taken as a universal law that an advantage to the one party will be compensated for by some advantage to the other.

reversion all kinds of erroneous statements are made. For instance, in a recent newspaper correspondence one writer alludes to the purchase money of the lease being “lost to the leaseholder”; another asks, “what is the justice of a system which compels a man who has put a building upon land to yield it back to the freeholder at the end of the term?” and a third says, “ground rents are valued, not so much as an investment for ordinary interest, as for the opportunity of legally appropriating the reward due to another’s labour.”

These statements are merely typical of assertions and insinuations that are being circulated in a thousand forms, to the effect that the leaseholder is deprived of his capital by the freeholder, of which more anon.

The following evidence, tendered to the Royal Commission, is quoted from a pamphlet compiled by the Secretary of the “Leaseholds Enfranchisement Association” :—

“The witness cited the case of a company with leasehold buildings on the Westminster estate, whose rents not only paid the ground rent and interest on the buildings, but also

provided a sinking fund. Mr. Jesse Collings thereupon said: Then these poor tenants are paying 3 per cent. (interest) in rent, and creating a prospective capital for a private company? (A.) They are assisting to reproduce capital which has been spent for their benefit. Mr. Jesse Collings, again pressing the point, said, They are paying the interest on the money, and they are creating a capital for the private company at some future day? (A.) Yes."

Referring to the examination of another witness the pamphlet says:—

"Mr. Jesse Collings clinched the matter by this question (asked of Miss Octavia Hill), As fast as your houses fall in the ground landlords will take your property, re-sell it at a higher price, necessitating higher rents, and, consequently, the whole operation resolves itself into increased value in the hands of the ground landlords? To this the witness answered, Yes. Witness was further examined as to the sinking fund, as follows:—(Q.) In paying 5 per cent., do you put aside a sinking fund to recoup the owner (leaseholder) at the end of the lease? (A.) Yes. (Q.) Then it comes back to the owner? (A.) Yes. (Q.) And that, of course, is taken out of the rents? (A.) Everything is taken out of the rents. (Q.) So that the labours of the labouring classes make a sinking fund to secure the property owner from ultimate loss? (A.) Yes. (Q.) I am not saying whether it is right or wrong. I am saying, first of all, that the increase of rent finds its way to the landlord, as ground landlord, and secondly, that the property owner is secured by the proceeds of the labour from any ultimate loss by the formation of the

sinking fund; is not that so? (A.) Yes, he gets 5 per cent. and his capital back again. (Q.) And then there is the sinking fund to recoup the landlord, according to the number of years that the lease has to run? (A.) Yes."

The "Leaseholds Enfranchisement Association" give special prominence to this evidence, but the chief thing it proves is, that all such statements as those quoted on page 7 are absolutely untrue. Those statements say, in effect, that in the matter of the reversion the *leaseholder* is despoiled by the freeholder; whereas a member of the "Leaseholds Enfranchisement Association," sitting on the Royal Commission, shows that the leaseholder gets his money back. This gentleman, however, falls into a different, though equally serious, error. He seems to think that the *labourers* are despoiled by the freeholder. These inconsistent allegations might be left to nullify each other were they always mentioned side by side; but, being used independently, they each in turn mislead. It may be well, therefore, to reply to both, explaining first how the respective positions of freeholder and leaseholder are brought about.

A ground rent, as generally understood, is the rent agreed to be paid for land taken on lease for

building purposes, and when the buildings have been erected it usually ranges from one-third to one-sixth of the rental value of the completed property, the proportion being generally higher where land is most valuable. There is, however, no fixed ratio; it varies according to circumstances; for instance, the road, sewer, &c., may have been made by the owner of the land, or ground landlord, or they may have to be made at the expense of the lessee, in which case he gets the land at a lower ground rent. Sometimes a lessee pays the freeholder to have the ground rent reduced, *i.e.*, he buys up a part of it; but more frequently he receives a money payment, or if buying the lease he gets a reduction in the purchase money, upon agreeing to pay a higher ground rent, which is technically called improving a ground rent. In some cases the ground rent is as much as, or more than, two-thirds of the rental value, or as little as one-tenth, or one-twentieth, whilst it is not unfrequently merely nominal.

It is a common error to suppose that all leaseholders at a ground rent have either built themselves as lessees or acquired the rights of a building lessee.

Many a freeholder creates a ground rent on existing buildings that belong wholly to him, fixing it high or low by arrangement, and sells it to one buyer, and the leasehold, subject to the said ground rent, to another buyer, being often thus enabled to make more of his property—or he may sell the ground rent and keep the leasehold, or *vice versa*. However the lease may be acquired, the principle is the same. A consideration is given for the enjoyment of a benefit for a fixed period. That benefit is the right to receive for a definite term a large, whilst paying only the small, rent. The consideration given is the building according to contract, or the purchasing of the rights of some one who has so built, or the paying to the freeholder a premium for the lease. The allegation that there is injustice in the benefit ceasing at the termination of the period agreed upon is puerile, if not disingenuous. The leaseholder, whether he built or bought (assuming him to possess ordinary intelligence) will have calculated on the lease running out, and have agreed to pay less ground rent, or have paid less for his lease accordingly. He estimates that his net income from the property will, during the term, suffice to reimburse his capital, in

addition to returning a satisfactory interest on the balance from time to time outstanding, as illustrated by the examination conducted before the Royal Commission. A portion of the net income received by the leaseholder is capital returned,* but this portion when the lease is long is so trifling that in practice it is usually ignored, and the whole net income is called interest, though every leaseholder knows it is not actually all interest, and those keeping correct accounts do not show it as such. When the lease is short the capital invested in it is smaller in consequence, and a less portion of the net income is represented by interest and a larger portion by capital returned.

Such descriptions of the portion of capital that the leaseholder receives back year by year as were vir-

* Suppose £1,000 be paid for a lease with 99 years to run. Calculating interest at 5 per cent. the capital returned the first year would be £0.402 or 8s. 0½d., the second year £0.423 or 8s. 5½d., the third year £0.444 or 8s. 10½d., and so on increasing each year by 5 per cent. or one-twentieth. Similarly the first year of an 80 years' term the capital returned would be £1 0s. 7d., and of a 60 years' term £2 16s. 6d.—or rather more than ¼ per cent.

tually forced upon the witnesses are misleading; for example, "Then these poor tenants are paying three per cent. (interest) in rent, and creating a prospective capital for a private company," "assisting to reproduce capital," "creating a capital for the private company at some future day," "the labours of the labouring class make a sinking fund."

There is no creation or reproduction of capital, or making of a sinking fund by the tenants. What takes place is that a portion of the freeholder's interest, as described further on, is retained by the leaseholder every year, until by the end of the term, these sums have given the latter back the whole of his capital. The land, then returns into the possession of the freeholder, together with the buildings that have been erected thereon, and which buildings are received by the freeholder, as the equivalent of the accumulated interest that has been kept back from him.

It is, therefore, the freeholder who provides the sinking fund to repay the leaseholder's capital, and who is himself repaid by the reversion, the whole operation being one of "Mutual Restoration."

It is a palpable mistake to suppose that poor tenants pay more rent where premises are leasehold. They pay at most only the market rent, and have nothing to do with any divided ownership. They only know their immediate landlord. In taking a house, they do not enquire whether it is freehold or leasehold ; and the idea that they will pay, or are compelled to pay, more rent for the latter is ridiculous.

We look upon the net rent of a freehold property as the interest on the capital invested therein, and if the property is not freehold—that is, if the ownership is divided, the net rent still represents only the interest on the total capital invested by the several part owners. In any case all the parts only equal the whole. For the purpose of illustration it will suffice to take a property as belonging to two parties only, freeholder and leaseholder.

The leaseholder collects the whole rent, pays rates, repairs, insurance, &c., leaving the total *net* rent, of which he retains one part and pays the other to the freeholder, under the name of ground rent ; but one point which is often lost sight of is that, although the total net rent and the total interest are the

same, the portions of the rent retained from year to year by the freeholder and leaseholder respectively, are not identical with the interest on their respective portions of capital. If this were generally realised we should hear little or nothing about the leaseholder being robbed by the freeholder, the tenant by the leaseholder, &c., &c.

It has been shown that every year the leaseholder gets a portion of his capital back, that is to say, of the total net rent he receives, which is the same as the total interest, he retains more than his share of interest by the amount of the capital returned, commonly known as the sinking or depreciation fund, but which may be more correctly called the "*Restoration Fund*." It therefore follows that he does not pay over to the freeholder the full amount of the latter's share of interest.

As the portion of the leaseholder's capital (or principal) returned in any one year reduces his principal for the following year, less of the portion of rent retained by him in the second year will be represented by interest and more by capital returned, thus reducing by a larger amount the principal for the

third year. In this way the amount of capital *returned* goes on increasing year by year, and the interest appertaining to the capital outstanding goes on diminishing year by year, throughout the term.

With the freeholder, the converse is the case. In any one year he receives less than his proper interest which increases his capital in the property, or principal, and consequently the interest of the next year, and similarly for every year of the term in increasing amounts, identical with the instalments of capital received back by the leaseholder, until the latter's capital has been restored, and the freeholder comes into the reversion, the arrangement being, as before stated, one of "*Mutual Restoration*."

It has been stated that the "system of creating ground rents upon building leases, with a reversion of the building to the freeholder, is absolutely unknown in any country in Europe save the United Kingdom." This is doubtless based on the reports obtained in 1884 by Earl Granville from the various capitals of Europe, and in point of accuracy is on a par with the other statements already noticed. It is contrary to the facts, but, even if it were true, what would it

imply? Might not the English in this matter, as in so many others, be ahead of other nations?

Upon referring to the reports above mentioned, we find that land is let in France, Russia, Sweden and Turkey,* if not in other countries, on building leases with reversion to the freeholder, the same as here; and it is specially mentioned that in Paris the term is sometimes as short as 30 years. In Denmark the custom prevails of letting for lives. In some other countries it is the custom, if there is no agreement to the contrary, that the building *may*, or *must*, be removed by the lessee—a very doubtful advantage, it not being usual to carry one's house about like an article of furniture. Better by far for both, our custom, where the freeholder gets the benefit of a substantial building, and the leaseholder the benefit of a reduced rent in consequence.

The "Taxation of Ground Rents."

It has been proposed "to tax ground rents," by which, presumably, the imposing of some new tax is

* The *Metropolitan* newspaper states that in continental towns where land is very valuable, as, for instance, Paris, Brussels, Geneva, the leasehold system prevails as in England.

intended ; but whether for Imperial or local purposes, or to be applied to existing or only to future leases, is not explained.

The ease, however, with which the injustice of imposing any new tax, if applied *retrospectively*, can be demonstrated, and its worse-than-uselessness shown, if applied to the *future*, seems to require an apology for saying so much respecting it. That apology is the widespread misconception which prevails on the subject, as instanced by the following facts :

Many candidates at the general election, in November, 1885, including both political parties, expressed willingness to vote for "taxing ground rents."

One of the London vestries shortly afterwards invited the other vestries to join in a united memorial to the Government advocating the measure.

A motion was introduced into the House of Commons on March 16th, 1886, in favour of the direct assessment on owners of ground rents, and "owners of increased values imparted to lands by building operations or other improvements," which was referred to the Select Committee on Town Holdings.

At the annual meeting of the "Leaseholds Enfranchisement Association," in 1886, Mr. Broadhurst, on retiring from the chairmanship of the Association, upon being appointed a Minister of the Crown, is reported to have said, that the taxation of ground rents had always been a part and "main feature which had led up to their present proposals."

In the *Echo* newspaper of the 21st December, 1885, appeared a letter from a gentleman of Cabinet rank, expressing the opinion that ground rents should be made contributory to local taxation.

This letter was the first of a long correspondence from various quarters which was published in the columns of the *Echo* between December 21st, 1885, and January 13th, 1886, and in which were embodied several of the views and arguments hereinafter set forth.

Presuming the proposition to tax ground rents arises from an impression that the present system is unjust, it may be asked towards whom is it unjust ? Is it to the State ? To the local rates ? Or to the lessees ? How can it be unjust to the State, when ground

rents pay the same income tax as any other class of income? * How can it be unjust to the local rates, when property with a ground rent on it contributes the same as similar property without a ground rent? The assessments for rates and taxes depend upon the annual value, and are liable to be readjusted every five years according to the rental for the time being. Of two similar houses, if one pays a ground rent and the other not, they are both assessed the same, and consequently pay the same rates and taxes. Hence there is no injustice to either the Imperial or the local revenue, and it cannot surely be contended that one house should pay more than the other.

* *Leaseholders, also Freeholders of rack rent*, pay income tax on gross value, out of which they have to pay repairs and insurance. For instance, they pay on say, £50 instead of £42, whilst other kinds of income pay only on the net. *House and ground-rent owners* in only rare cases get back the income tax to which they are legally entitled if their income is below £150. Many are not aware of the right, and others are deterred by the trouble entailed. This might be remedied by a notice on income tax receipts, and by giving greater facility for returning the money. Why does not some one take up these questions in the interest of leaseholders? Is it that there is no opportunity for abusing some other class?

Is it, then, proposed to lay burdens on the ground rent for the benefit of the lessee? This would be an interference with private contract, for which there is no justification. When creating a ground rent, the lessor and lessee mutually agree that the lessee shall pay all rates and taxes (except income tax on the ground rent), and bear all cost of roads, sewers, &c.; and of course, the lessor agrees to accept, and the lessee agrees to pay, less ground rent in consequence. It may be mentioned that during the term of the lease—say, 80 or 99 years—however much the rental value of the property may increase as a result of constructing improved roads, sewers, &c., and the development of a neighbourhood, the lessee gets all the benefit. There is no increase in the ground rent. It would be, therefore, inequitable to impose on the ground landlord charges from which he gets no benefit, and which, moreover, the lessee has expressly agreed to pay.

Provident Societies, Insurance Companies, and Charities have millions invested in ground rents, as likewise have trustees acting under wills. These bodies represent tens of thousands of the

most thrifty, as also of the most helpless, of the community. Ground rents are specially suitable for such investors, as for all requiring the best security with little attention. They, however, yield a low rate of interest compared with leasehold house property, and the imposition of special taxation on them would be a grievous wrong.

The injury caused by rating ground rents would be increased by the trouble and correspondence involved in adjusting accounts, which (as will be shown under the head "Taxation and the Future," page 36) would be an especially serious matter in the case of small collections. This would additionally depress the value without benefiting anyone, which would be tantamount to destroying property, whereas the aim of public men should rather be to create.

It has been asked whether it is just, that one who lives in a leasehold house should have "to pay (rates) to the full annual value of the house and the ground rent in addition." Certainly it is just that he should pay all the rates, because he has agreed to do so, and by so agreeing obtained the house at a reduced ground rent.

It has been urged that ground rents should be taxed because they have lately risen in value, it being alleged that if ten years ago "A" bought a ground rent of £10 a-year for £200, people would now give £240 for it, and consequently the income "A" bought should be reduced by making it pay rates. Ground rents, however, have not risen in value in this proportion, but a question of degree does not affect the argument. "A" bought an income of £10 a year, and is he to have that reduced because a dearth of good investments has driven the market price up? Would he have been indemnified had the price gone down, as it may do before he sells?

One correspondent ("A Tenant") says he formerly occupied a house in Holborn on the Duke of Bedford's estate, who received a ground rent of £50 per annum. "Tenant" paid the rates, about £40, and also paid £130 rent to the mortgagee, "the unfortunate builder and owner having," he says, "been ruined by previous tenants failing, unable to pay these enormous rates." He thinks a more equal distribution of taxation would have prevented the ruin of so many and have been a small item in the wealth

of "this noble Duke." He certainly expects too much if he supposes the public will believe that it was the "enormous rates" that "ruined so many," when the *total* was only £40 a year, whilst the proportion on the ground rent of £50, which appears to be the extent of his grievance, would only have been about £15 a year. Such reckless misrepresentations carry their own refutation. One might ask, if the rates were ruinously high, why did "Tenant," knowing he would have to pay them, agree to pay so much rent as £130? With the £50 ground rent he had nothing to do; that being paid by his landlord, the mortgagee. He evidently thought it would answer his purpose to pay £130 rent, and if of the rates paid direct by him, the ground landlord had undertaken to pay a portion, say £15 a year, would he not have agreed as willingly to pay £145 rent, as the £130 with full rates, the net result being the same?

To return to the question. "Is the present system unjust to the State, the local rates, or the lessee?" One correspondent abandons the plea of injustice to the State, and the local rates, but appears to think

there is injustice to the lessee. He says, that as occupier of his own leasehold house, he is rated upon the rental value, just as if the house were freehold, which is an admission of the fact that for taxation purposes the ground rent is merged in the rack rental. He supposes a case where he buys a house of £50 annual value, subject to £10 ground rent, occupies it himself, pays all rates, and in addition thereto the ground rent of £10, while the owner of the ground rent, he says, goes free excepting property tax. It may be repeated in passing that, so far as the owner of the ground rent can be said to go free of rates, it is by having agreed to let at less ground rent than he otherwise would in consideration of such rates being discharged by the lessee. In the case assumed, the writer puts himself in a twofold position—owner of the leasehold and occupier or tenant. As tenant he pays the rates, but has nothing to do with the ground rent. As owner he receives from himself as tenant £50, on which he, as owner, pays no rates, and yet he wants to make the ground landlord pay rates on the £10 (portion of the £50) which he has to pay over to him. When purchasing the leasehold, the ground rent and all

other liabilities are discounted in the price. For instance, in round figures, the £50 per annum freehold is worth £750; he buys the £40 leasehold for £500, getting, after allowing for repairs, &c., about $6\frac{1}{2}$ per cent. clear. The ground rent is worth about £250, returning only 4 per cent. clear. How can he justify the shifting on to the ground rent of liabilities which he is comparatively so well remunerated for assuming, and has by "hand and deed" in the conveyance agreed to bear?

Another correspondent claiming to write in the interest of "justice, but not law," tries to justify the taxation of ground rents, on the plea that he is opposed to the State interfering in private bargains, which he alleges it does in a one-sided way by recognising the fixity of the ground rent, whilst the leaseholder "must submit to have his property re-assessed every five years."

To this the reply is that the ground rent was fixed in the lease independently of the State, whereas there was no fixed condition expressed or implied that the assessment should remain unaltered. Such a condition would be absurd, as the parties could not

control the assessment. The leaseholder on taking the lease knew this and that he was taking the risk of the assessment rising or falling. It would have been as reasonable to fix conditions against his raising the rent should the property improve, or reducing it should the property depreciate. At the periodical re-assessments, if the property has decreased in rental value the assessment is reduced, and *vice versa*. Hence the lessee who has his assessment raised is fortunate, as it results from an increase in the rental value. As an example of "justice, but not law," could such lessee be induced to share the said increase with the ground-rent owner?

More than one writer recurs to the obvious fact that as D, the occupying tenant, pays full rates, it would be ridiculous to tax A, B, C, &c. (*i.e.*, the freeholder, lessee, sub-lessee, &c.), except for D's benefit. But as D would thus escape payment at the expense of and in defiance of agreement with his immediate landlord, C, the latter would justly raise the rent at the end of the current agreement, when D would be able to pay the increased rent with only a portion of the rates as well as he now pays the present rent. C, B, and A, would, however, be

robbed by authority of the State for the remainder of the agreement or lease each had respectively granted. Verily this would be a strange recognition to those landlords who have granted long leases, which is generally supposed to be in the interest of tenants.

The Metropolitan Board of Works and the City Authorities, bodies representing the public, either hold or sell large amounts of ground rents. These ground rents are, of course, lower than they would be did not the lessees covenant to pay all rates, and in most, if not in all cases, the lessees have had the option of purchasing the ground rents. In respect of the ground rents still held by these bodies, are the public through them to be robbed by retrospective taxation for the benefit of a class—the lessees?—for anything else than robbery it cannot be. Further, in respect of the ground rents sold, are the buyers to be robbed in like manner after paying to the public, *through* the said representative bodies, higher prices in consequence of stipulated immunity from rates?

Do the advocates of “taxing ground rents” see the drift of their proposal? Is it not to make tenants and lessees dishonest by Act of Parliament, under the cloak of an alleged injustice in the present

system which has no foundation except in the imagination of the said advocates?

Some *occupying tenants* have written complaining of high rents and taxes, in which we can all sympathise—but this is a matter to be settled with their landlords. If the tenants can get their rents reduced it will be followed by lower taxes, but a tenant only pays his present rent because the house is worth it, and others would pay it, in spite of the rates, if he would not. We cannot alter the law of supply and demand by legislation, and the sooner this principle is recognised the better it will be for all. The lease of a shop, held at less than the current market rent, will command a premium (irrespective of business goodwill), and a workman's cottage or tenement held weekly below the market value will, in like manner, command a premium known as “key money.”

One writer complains of certain specified rates. Some years since he leased land at £25 and built on it. Sewage works, town improvements and school board have increased his

Sewers,
Improvement,
and
School Board
Rates.

rates by 1s. 9d. in the £, of which he thinks his landlord should pay a portion. He (the lessee), however, is doubtless repaid many times over for his extra rates by the advantages and increased value resulting from the outlay. He agreed, be it remembered, to pay all rates present or future, which covers the sewers, improvement, and school board rates, of which he complains. Even if these specific rates were not contemplated when the lease was taken there is no hardship, unless the capital outlay be repaid with undue rapidity, as new local rates are not imposed without expecting a return for the money in the shape of some local benefit. The lessee gets that benefit, whilst he and other ratepayers elect the authorities having control of the improvements and consequent rating. It is good policy that those who elect the spending authorities should feel that they have the burden of finding the money, and are themselves interested in seeing that good value is obtained for its outlay.

If it be contended that the State ought to go behind the covenants of a lease to enquire whether the lessee, when taking the lease, omitted to provide

in his calculations for any class of rates subsequently introduced, ought not the State, per contra, to take into account the benefits he has enjoyed from the expenditure of those rates? Assuming this expenditure to have been judicious, the benefit will have outweighed the cost, and, as a matter of fact, anticipated improvements are usually looked upon, in spite of the rates they foreshadow, as increasing the prospective value. The inference therefore is, *that if the whole circumstances could have been foreseen by both parties to the lease, a higher ground rent would have been agreed upon.* Consequently if either party has reason to complain, it is the freeholder; because, not expecting the improvements, he did not fully gauge what we may call the "latent value" of his property before letting it on lease.

If the rates resulting from sewers, improvements, &c., be examined in detail, they will be found composed of (i.) Instalments of Loans repaid, (ii.) Interest on the balance of Loans outstanding, and sometimes of (iii.) current working expenses, including wear and tear. No one can seriously think that lessors should contribute toward (ii.) and (iii.),

but the question of repaying loans is deserving of consideration.

Any exceptionally large outlay for improvements or a main drainage system is usually defrayed out of loans repayable by instalments, extending over a long series of years. Besides conducing to regularity in the rates, this justly throws only a small portion of the cost of presumably permanent works upon occupiers or leaseholders having only short terms. The normal position at any given date, say when a lease is taken, is, that the current rates are contributing toward the repayment of money borrowed in the past. According as this money is paid off, if further money is not borrowed, and other things remain the same, the rates will decrease. In practice, however, the parties to a lease do not calculate upon a decrease, but, by a sort of rule of thumb, they base their calculations upon the rates at the time being. According as the contributions to the repayment of such loans decrease or increase, the lessee pays less or more than he calculated upon. But it has just been shown that, even when he pays more, he is generally the gainer, and the lessor the loser, by the

whole circumstances not having been foreseen. Were the repayment of a loan, which had been obtained for any permanent improvement, effected within an exceptionally short period, injustice might be caused to present lessees and occupiers, but as these bodies control the authorities, probably any caution against unduly rapid repayment would be superfluous. In the event, however, of such injustice being alleged, and a moral claim arising on the landlord for compensation, several interesting questions would have to be considered, such as depreciation, wear and tear, the expediency and economy of the outlay, and whether the works had become obsolete. Imagine for instance, our present drainage system being superseded by some other; landlords, upon the leases expiring, would have to pay off debts contracted by their tenants, from which they might get no benefit.

This is not the place to fully consider these questions, though a passing reference seems necessary as a protest against the one-sided views generally enunciated. Every contract carries certain risks, as well as certain probable gains. If the lessee is to have legislative relief from a bad bargain, the lessor

should, in all fairness, be treated with the same consideration, when he makes a bad bargain. It is however impossible for the State, in the vain hope of attaining absolute perfection, to level up all the losses, or level down all the gains. Were this possible for leases, why not for all other kinds of contracts? The logical sequel would be that no contracts whatever would be entered into, because none would be binding, and complete stagnation would result.

Recurring to the question of leases granted before sewers rates were known, it is notorious that the *Drainage* question with its cesspools, night carts and other abominations existed, and a lease was taken with the full knowledge of, and subject to the inconvenience, annoyance and expense of dealing with it, in one form or another. Would holders of old leases like to revert to the old system, if it were possible to do so, in order to escape sewers rates?

Sewers were substituted for cesspools by concurrence of the ratepayers, that is, by those who had previously been free from sewers rates. They counted

the cost and thought the change to their advantage, and no doubt they were right, but even if they erred in judgment they cannot consistently desire to throw that cost upon the ground landlords.

As regards *Improvements*, these are usually necessitated by increase in population bringing increase in value, or they become practicable only, through increased population enabling the cost to be divided amongst a greater number. In either case the present benefit is enjoyed by the lessee—not the freeholder. It is only when the lease expires, and the freeholder comes into possession and pays the increased rates, that he reaps any benefit from these improvements.

Vast as have been the improvements in London during the last 20 years, the Metropolitan Board of Works rate was less, being 6·89d., for 1886, than it was in 1867, when it was 6·99d. May we not hope that with care this rate will tend to diminish in future?

As to the *School Board Rate*, it is essentially an occupiers' rate, being spent on behalf of occupiers in a district. Moreover, as large subsidies are paid by the State, the occupiers, as a body

of occupiers, have certainly no reason to complain, because they receive more than they pay for. That those who have no children and those who send their children to private schools, complain of having to pay in part for the education of other people's children is only natural, but that is a matter between the occupiers themselves, not between occupiers and landlords. If the occupiers of a district choose to have a board school and free education, they as a body must expect higher rates. Some of them will gain and others lose by the arrangement; but they have no right to expect the landlords, merely in the capacity of landlords, who in letting never guaranteed free education, to pay the cost, although as a matter of fact, the latter, in common with the public generally, do contribute to the subsidies paid by the State. Moreover, a landlord, in the district in which he resides, contributes as an occupier directly towards the school board rates of that district.

Taxation
and the
Future.

So far with regard to *retrospective* legislation, but it may be asked:—
“Would it not, as a matter of public policy, be well to enact that in future

all lessors shall pay local rates proportionately to their net receipts, even though the lessees may be willing to undertake the liability if compensated by paying a lower rent?” Any idea of the authorities collecting direct from the ground landlords, which would entail direct assessments upon intermediate lessees, as well as upon the freeholder, may be dismissed as costly, if not impracticable, and it may be assumed that the said rates would be collected as the Income tax is at present. Unquestionably even the latter system would, by increasing the trouble or cost of management, diminish the value of the property as a whole, from which some, if not all, and doubtless all, the parties would suffer. The Income tax on ground rents increases, probably sometimes doubles, the trouble of collection; but this trouble is trifling compared with what would be caused by a similar system for local rates. The rate of Income tax in the pound is the same for the whole year; it is also the same for every parish; and it seldom consists of a mixed number (*i.e.*, a whole number and a fraction). The rate per pound is therefore known to all parties, without the production of receipts or other evidence, and it is quickly calculated. The local rates, however, vary

not only within the year, as an example, 1s. 2 $\frac{3}{4}$ d., 1s. 2 $\frac{1}{2}$ d., 1s. 3 $\frac{1}{2}$ d., 1s. 3 $\frac{1}{4}$ d., for the four quarters respectively; but they vary with each parish, and they are often represented by mixed numbers. Evidence of the rates per pound must therefore be produced for each deduction on rent paid between the parties (say, between the tenant, perhaps one or more underlessees, the lessee and the freeholder). In addition, most payments would necessitate a fractional calculation; for example, £2 10s., £3 15s., £5, and the like at 1s. 2 $\frac{3}{4}$ d. in the pound; simple enough, no doubt, for everyone, but all taking time. Parties would be deterred by an objection to niggling details from making arrangements for sub-dividing their interests, which would otherwise be mutually advantageous, capital would be diverted from the creation of property, and the employment of labour thereby checked—and all for what?

Consequent upon the invitation before referred to the question of taxing ground rents was considered by the Vestries of London, whom the present writer addressed in condemnation of the suggestion. It is satisfactory to record that the majority decided

against supporting the proposal, and the more the subject is examined the more is this view certain to be strengthened.

It is abundantly clear that for the purpose of both Imperial and local taxation, the ground rent is merged in, and forms part of the rack rent, and already bears its full quota of taxation. "The rating of ground rents is a specious fallacy. At first blush, a new source of taxation is opened up, which disappears on investigation."

The "Taxation of Ground Rents" being, according to their late chairman, a main feature of the proposals of the Leaseholds Enfranchisement Association, an opinion can now be formed, as to the probable expediency of legislation based on such a foundation.

"Unearned Increment."

The advocates of "Taxing Ground Rents" generally mix the subject up with what they call "Unearned Increment," which appears to be a very pernicious product when derived from land, though perfectly wholesome if emanating from anything else. For example, a stack of pig-iron, or a bale of cotton, may "change

hands" half-a-dozen times before being converted into a manufactured article. Some of the buyers may gain, others lose, but upon the whole we will assume there is a considerable balance of profit, though, perhaps the present owner has made little or none of that profit, or may even have sustained a loss, according as the price he gave compares with the present value. The result to each individual is termed simply a *profit* or a *loss*, as the case may be, and arises from fluctuation in market value, consequent upon various circumstances over which the owner for the time being has no more control than has the owner of land over circumstances affecting *its* value. The operator's success depends upon his correctly forecasting the course of the market, and the State does not interfere whether he makes a profit or a loss.

In the case, however, of a piece of land, if the market value rise between one date and another, the profit is dubbed "*Unearned Increment*," the moral right to which is questioned because it is alleged the owner has done nothing for it, and may even have been asleep whilst the land was growing in value. Where the land has changed hands frequently there

will have been a series of gains and losses, as in the case of the iron or cotton, and the present owner may not have made any profit, yet the appropriation by the State of any portion of the balance of profit, would fall entirely upon him.

Illustrations are often made where land has belonged for a long period to the same owner or the same family. But, however great the increase or decrease in value, it is simply the sum of all the intermediate rises and falls in value, which correspond to the gains and losses on the cotton or iron. The principle is the same, whether the period be long or short, the transfers numerous or none at all; whether one person has borne a continuous risk of loss or chance of gain for a long period, or a number of persons each for a short period.

Upon the platform "unearned increment" is threatened *retrospectively*, but this was not intended by Mr. Stuart Mill, with whom, if we mistake not, the phrase originated. However mistaken he may have been he was evidently actuated by a spirit of fairness. He thought the *future* "unearned increase" in the value of land should accrue to the State. To

effect this, he proposed that the whole of the land in the country should be valued, in which valuation he would include any then existing probability of future increase, of which the owners at the time of valuation should not be deprived without compensation. Any increase beyond that valuation not due to the owner's improvements, to be appropriated by the State by means of Special Taxation, but the owners at the time of the valuation or at any time after, were to have the right of parting with their land to the State at the valuation price, by which they would not only get back whatever they had paid for the prospect of future increase, but would obtain the full price for which they could have sold that future prospect at the time when the new system was introduced.

It is not within the scope of these pages to consider the effects and working of such a measure. Mill's theory, however, was palpably based upon insufficient data. He stated that "the income from rural lands has a constant tendency to increase, that from building lands still more, and with this income from their lands the owners of the land have nothing to do except to receive it." He said "the increasing value of the

land is indiscriminate," and again "railway shares fall in price as frequently as they rise, which is far from being the case with land." In the light of recent history, these generalisations are shown to have been illusory, and the fabric built upon them crumbles to the ground.

Mill admitted that if under his system any land should decrease in value, the owner should be compensated. It might therefore have been a fortunate thing for many landowners had that system been adopted a few years ago; but, as it was not, it seems probable that Mill would have condemned the tampering with any present instances of past increase in value which has been tersely described as "the reward of risk."

Freedom of Contract in creating Lease.

The secretary of a kindred society to the Leaseholds Enfranchisement Association, assumes that the freeholder (A) can live without making a contract with the lessee (B), but says B must make contract with A—or die. Where, he asks, is B's freedom?

This is an extreme, if not impossible case. Is not B free to take land elsewhere, to follow some other

business, to turn servant instead of master, to emigrate or adopt some one of a dozen other courses as many other persons are compelled to do, when business falls off or employment fails, and which they look upon as preferable to dying, or even to appealing to the legislature to give them other people's property on their own terms. This gentleman's argument would be capable of very wide application. It might, for instance, with equal if not greater justice be used by any employé towards his employer when they could not agree as to salary, wages, hours, &c. And is A to have no liberty? It is begging the question to say that A can live without letting his land to B. He must under ordinary circumstances let it to someone, and has every right, moral and legal, to make the best bargain he can—be it with B or C or anyone else.

At present, in several suburban districts, the north of London especially, the land market is over supplied, and many who have purchased with a view to building or letting at ground rents, are sustaining heavy loss. For immediate building many cannot let at any rent whatever.

Overbuilding and Overcrowding.

With reference to overbuilding a correspondent says:—"Handsome shops stand empty by hundreds and private houses by thousands, evidencing ruin to many persons and benefiting no one but the ground landlord," whom he charges "with luring parties on to build when there is no demand for houses."

Against this charge of overbuilding may be set the Royal Commission's Majority Report, that the leasehold system promotes overcrowding. Can the same system be responsible for diametrically opposite effects? The truth appears to be that it is to blame for neither.

Far from conducing to overcrowding, the leasehold system promotes building, both in the suburbs and in central London. In the latter, when an estate of old, small houses reverts to the freeholder, it enables a systematic scheme of rebuilding to be carried out for comfortably housing more people on the same site. It also enables builders and others with comparatively limited means, or whose capita¹

may be locked up, to build on valuable sites which they could not conveniently purchase.

As regards the charge of overbuilding, even if it has more than a semblance of truth, which is doubtful, it is malignantly exaggerated.

Builders are not so easily lured as represented, but are quite as shrewd as a class, as the ground landlords, yet, like every other trade, they may sometimes err in overstocking the market; but even so, the ground landlords often find the bulk of the money and are the greatest sufferers, whilst tenants, the very class in whose supposed interest the charge is made, are positively gainers by the consequent reduction of rents, which is abundantly illustrated at the present time in many parts of London.

The remedy suggested for overbuilding by this writer, viz., the partial rating of empty houses, would no doubt take effect, but for whose benefit? Not the poor "lured" builder's before referred to, as in his case it would be tantamount to "kicking a man when down" with a vengeance. For him or any other owner of empty houses, struggling to keep head above

water, it would be another push under. A man of limited means would have to beware of house property, whilst amongst well-to-do owners things would in time find their level. They would have no more rates to pay as a whole. They would have less to pay when receiving rent, and more to pay when getting no rent, which would certainly check building and tend to raise rents to the disadvantage of the large numbers engaged in the building trades who want work, and our increasing population who want houses. It might be economical to pull down houses in an over-built neighbourhood rather than pay rates pending arrival of better times. Were it not that the foresight of the much-abused land and building speculators tends to equalise matters, we should at one time have enhanced distress amongst our workmen, and at another time, in a wave of prosperity, rents would rise enormously because houses could not be erected fast enough.

One moral from the overcrowding on the one hand and the alleged overbuilding on the other is, that we should give free scope to private enterprise which is the best means of meeting any demand, and

promote the extension of cheap communication with the suburbs.*

It may be here remarked that all eleemosynary schemes do more harm than good, and have a tendency to discourage private enterprise, and to pauperise the poor. (See Report of Royal Commission, page 66.)

A more summary way of dealing with bad tenants would bring more capital into house property, and reduce rents. A bad tenant can cause so much

* The House Duty should be abolished on the first opportunity, which will, it is to be hoped, arise shortly when a large amount of Annuities will fall in. This duty is full of anomalies and checks the supply of houses. It is similar in character and effect to the old window tax. Its repeal would increase dwelling accommodation in congested centres by enabling premises to be more frequently used partly for business and partly for residential purposes. At present, residence in the smallest part of a house renders the whole house, however large, liable for house-duty, and as a consequence a great deal of accommodation is unutilised, especially in and around the City. This duty, moreover, falls mostly upon those who get no direct benefit from the School Board rates which they have to pay, and consequently its abolition would tend greatly to compensate for the unfair incidence of those rates.

annoyance and loss that many will not touch house property, and a larger gross rent has to be calculated for, to cover contingencies, the respectable working man thus suffering for the delinquencies of others. He is often prejudiced in another way. As working men cannot all get small houses they often take larger houses than they require and let off. Not unfrequently they first get into difficulties through some lodger, who could pay if he liked, but will neither do so nor go. The occupier knows of no simple and quick way of getting rid of him (unless by paying him out), and being a hard working man is probably not so well versed in law as the lodger.

Ground Rents and Thrift.

One writer, the secretary of another kindred society, says:—"English ground rents are the safest kind of property in the world, and when property is made so exceptionally valuable and secure we may be sure it is at the expense of the community." The absurdity of this statement is self-evident. Most of the superficial would-be innovators adopt the cloak of philanthropy, and prate away

about the community. Would they not, however, advocate thrift and agree that the thrifty, and especially those entrusted with the funds of the thrifty, should take care to invest safely? Would they not deprecate aiming at a high rate of interest as synonymous with bad security, and yet, on the other hand, safety with moderate interest is in ground rents made a cause of attack. They would injure the very security in which, probably, a larger amount of the savings of the thrifty is invested, and in which a larger number of bread-winners provide for those dependent on them, than in any other kind of investment. One society alone, whose business is almost exclusively amongst the industrial classes, has more than a million sterling invested in ground rents. Every principle of honour and equity, and every precept of political economy are violated by these superficial would-be innovators in turn, who refute themselves out of their own mouths.

It is alleged that the so-called enfranchisement of leaseholds would encourage thrift amongst the working classes. This would be more apparent if they availed themselves more generally of buying

single leasehold houses with long terms, which are practically equal to freeholds, and are obtainable at a proportionately lower price with simpler title.* Obviously many working men object to tie themselves to one district, as they would to some extent by buying the houses they occupy.

One great cause of unthrift among working men is the widespread feeling that savings are often lost, and, on the whole, are not worth the trouble; not that working men, as a class, are worse in this respect than other classes.

Greater security for savings invested and, if possible, a larger interest than Consols or Savings Banks afford would be important inducements to thrift, but,

* Probably something might be done towards distributing houses amongst a larger number of people by a short customary form of mortgage, providing for payment in instalments by way of increased rents, and which could be adopted between landlord and tenant. In cases where repayment by instalments would inconvenience mortgagees, especially trustees, did they adopt a system of lending on long terms certain, transferring the mortgage instead of calling it in, should repayment be unexpectedly required, it would be a great advantage to borrowers and enable lenders to find good securities with less difficulty.

above all, it must be made clear that those who have property, which is generally the result of saving, shall be protected in its possession. With the custom, now extending, of granting a separate lease for each house, supplemented by cheap transfer, small savings may be more conveniently invested directly in ground rents. For instance, £100 in the Post Office Savings Bank produces $2\frac{1}{2}$ per cent. ; transferred into a ground rent it would yield 4 or $4\frac{1}{2}$ per cent.

Bad Building.

Bad building like every other evil under the sun is alleged as a consequence of the leasehold system, and this upon the authority of the "Majority Report" of the Royal Commission, yet we need only look to the same authorities to refute the allegation. Mr. Broadhurst who signed that report said in a speech which was circulated by the Leaseholds Enfranchisement Association, in reference to a certain unnamed town of 10,000 inhabitants :—

"All the houses are substantially built of stone

and the details of the buildings are carried out under the strictest supervision of the ground landlord, because they will be his property in sixty years' time, and he will see to it that you put up good property, which shall be worth leaving to his heirs and successors."

This section of the Royal Commission, fettered by a foregone conclusion, evidently signed their report without sufficiently investigating the subject.

Leasehold building generally takes place upon two classes of estates: the one intended to be kept permanently in the family, the other to be sold in the form of ground rents. On the former there is an estate surveyor, and Mr. Broadhurst himself describes the satisfactory result as regards the quality of the building. On the other class of estates, granting that the owner's only concern is to get a good price for his ground rents, it will assist him if the houses are well built; so that even he, is likewise, a check against bad building.

Bad building, it may be assumed, will only be practised by those builders who do not study to get,

and keep, a good name. Their object is to sell, whether the houses are freehold or leasehold, and the opinion prevails amongst those best qualified to judge, that they build as badly on freehold as on leasehold estates, and, there being no freeholder to control them, even worse.

"Fixity" of the Ground Rent.

The "fixity" of the ground rent is even used as a plea for spoliation, as instanced by the letter alluded to on page 26, and by the speech of the chairman at the last general meeting of the Leaseholds Enfranchisement Association, when he stated that his assessment had been reduced, and he thought it a monstrous inequality that the ground rent should remain unaltered. In reply to this the *Standard* and *Daily News* inserted a letter from the present writer asking whether it is a monstrous inequality that the ground rent remains fixed when a property increases in value, which is frequently the case over lengthened periods. Indeed a leasehold often doubles in rental value during the term, the ground rent, of

course, remaining the same.* The more a property has improved, the more injured is the lessee represented to be in having to give it up at the end of the term, yet in such a case it is clearly unfortunate for the freeholder that he ever granted a lease. It is true that after it expires he benefits by an increase in value, but had he not granted the lease he would benefit previously also. He, in the light of later events, can see that he made a bad bargain, but he would hardly expect the law to step in and give him a share of the leaseholder's unexpected profit. Yet the chances are a hundred to one that this profit

* The currency question has an important bearing on this subject. If the purchasing power of gold decreases, the owner of a ground rent, in common with the owner of Consols, and all other receivers of fixed incomes, suffers, and *vice versa*. There are probabilities both for and against gold continuing, over long periods, as it has done in the past, to decrease in value (that is for commodities to become dearer), but it is not intended here to discuss those probabilities. It will, however, be clear that if during a 99 years' lease gold should depreciate, as 3 to 2 for instance, other things remaining the same, a lessee taking a lease at £10 ground rent, with rental value £50, would by the end of the term be getting £75 rent, and still paying only £10 ground rent, which would be equal to only £6 13s. 4d. at

is due to nothing done by the lessee beyond what he agreed, but to advantages in position of the land—*i.e.*, the freeholder's property—that had not been foreseen.

Such interference would keep every one in leading strings. There would be no incentive to individual effort, or the development of private judgment and foresight.

Large Ground Rents.

High ground rents, when understood as meaning

the commencement of the term. Ground landlords have in the past been great losers in this way, and their reversions have appeared the larger, owing in part, to the fixed ground rent being proportionately less than it was at the outset, though nominally the same. Should gold become dearer (*i.e.*, each sovereign buy more) the lessees would be losers. This uncertainty of the currency offers one argument against the policy of very long leases, as short leases admit of the terms of letting being re-adjusted from time to time. Whichever turn events may take there is nothing unfair about long leases, and it would be impossible for the legislature to interfere with justice to all parties. An automatic sliding scale might be a corrective, but the question is, would it be practicable? and would not people rather take a remote risk than trouble about it?

tens, or perhaps, hundreds of pounds on a single building, are alleged to injure trade and the working man.

As to trade: a high ground rent is a consequence, not a cause—*viz.*, the consequence of local activity in trade creating competition for the site. Lessees may be presumed to know their business, and the value of the land to them, better than the irresponsible agitator; and such rent as they give, the land must be considered worth. These sites are often let by auction. The owner has the right to get the highest ground rent he can; and it is to the public interest that he who will give the most for an article should have it, the presumption being that he can make the best use of it.

Then as to the working man: it is clear that the more building land rises in value, the greater the inducement to build good houses, and in old districts to pull down existing buildings and erect costlier ones in their place. This gives a great deal of employment, as probably every kind of occupation is benefited directly or indirectly by activity in the building trade. It will be a bad time for the working man, and every one else, should there be a *general*

decline in the value of building sites in old districts. A *local* decline brought about by competition is a different thing, as a loss at one place is then generally balanced by a gain at another.

To talk, as some do, of a "City site" as mere vacant land, gives an imperfect idea of the matter. A "City site" generally represents a large value removed in clearing the land; for instance, a building may be producing £400 a year net, worth £8,000 (20 years' purchase). If when cleared away the site should be worth a ground rent of say £500 a year, or £12,500 (25 years' purchase), after allowing for temporary loss of rent and contingencies, a good profit would be made by the freeholder; the lessee would make a profit; a large outlay for labour would be incurred; whilst the produce of the site and the contributions to the rates would be permanently increased. Thus all parties would benefit, and that is what we want to stimulate enterprise.

"Betterment."

A writer in the *Echo* of the 11th January attacks the ground landlords, because, as he alleges, freeholders do not pay their share of improvements

when they make great profits thereby. He confounds freehold ground landlords with freeholders of rack rent. All pay higher rates on getting higher incomes. This is allied to the question of "betterment," referred to by the Royal Commission as the principle of levying rates in a higher measure upon the property which derives a distinct and direct advantage from an improvement, and which principle is said to work well in America. Though a sound principle, it must be difficult to apply fairly. Street improvements sometimes ruin existing markets, and the large piles of business premises, often erected along new streets, frequently cause great reduction in the rents of neighbouring property. Hence an expected "betterment" may eventuate in "decrement," not that this condemns the principle of assessing extra for "betterment," but it indicates the need of great care in its application. If clearly shown improvement is charged for, will clearly proved injury be compensated?

Ground Rents as affecting the Community.

It is asked whether the creation of ground rents should not be prohibited in the interests of the com-

munity at large. The term "community at large" is inconveniently vague. Who are the community at large? Are they not composed of individuals? and if so, how can liberty to individuals to enter voluntarily into contracts for their mutual advantage for a laudable purpose—for instance, the supply of house accommodation—be detrimental to the community at large. Is it too much to say that the aim of every individual in every business transaction is to make a satisfactory contract, and does not this apply as well to verbal as to written contracts, as well to an agreement between master and servant, vendor and purchaser, as landlord and tenant? Different individuals have different requirements, these different individuals compose the community, and hence the interests of the community are consulted by promoting liberty between individuals. Restrictions upon that liberty must, as a rule, by prejudicing individuals and cramping their energies, injuriously affect the community of which they are members.

The ground-rent system enables capitalists, trustees, provident societies, hospitals, &c., to invest in house

property without having the trouble of managing it, or being liable to fluctuations in income. On the other hand it enables a man with the time and experience necessary for the management of property by purchasing leasehold, to get a higher rate of interest to compensate him for his trouble and risk.

As before stated, the seller of a freehold property can often make more of it by thus creating two interests. Is he (another member of the community) to be prevented from doing this? There is a genuine, economic demand for these two divisions of property, which has been exemplified by some of the large railway companies obtaining power to divide their ordinary stock, at the option of the individual holders, into two classes—viz., "preferred" and "deferred" stocks, known as "A" and "B" stocks—and which option has been extensively exercised. Two classes of buyers are thus suited, and cases are of daily occurrence where persons, having the option to purchase the same property either freehold or leasehold, prefer the latter. This fact is sufficient answer to figures I have seen, furnished up by an F.S.S., taking abnormal rates of ground

rent and interest to fit his argument,* which is intended to show that a property is worth most as a whole freehold. This may be true in some cases, but it is not true generally.

The lands taken by the City and the Metropolitan Board of Works, in connection with street improvements, are generally re-let upon building leases; and often, if not always, the lessees have for a time the option of purchase, but they seldom avail themselves of it, at least to keep the property freehold, though they sometimes exercise their option for the purpose of themselves creating and selling a ground rent to another buyer on the principle explained in the preceding paragraph. Here we have instances of unrestricted freedom. The lessees have their choice, and

* This writer takes for his illustration a ground rent that is only one-seventh of the rack-rental, which is much below the average proportion, and is not a fair case to take for comparison. Economically considered it is better, for both freeholder and leaseholder, that the ground rent should bear a larger proportion to the total rent. He also, to the disadvantage of the ground-rent system, calculates 6 per cent. as the mortgage rate of interest on the leasehold, whereas 5 per cent. is the ordinary rate, whilst upon first-class leasehold securities money ought to be obtained at $4\frac{1}{2}$ per cent.

the result is that most of the important properties erected along our new streets come under the leasehold system. Let the would-be "enfranchisers" test these statements. They can find plenty of examples without going far from the doors of the House of Commons. The prohibition of the leasehold system would delay building on many of these sites, to the disadvantage of would-be tenants in both health and pocket, and the restriction of the demand for labour.

Option to purchase the freehold is also largely given on smaller classes of property, but is very little exercised, at least in London. Purchasers of a house will often express a wish in general terms to have the ground rent, but they are seldom willing to pay a market price for it, which indicates that it is worth more to others than to them. An estate of ground rents was recently offered at auction in single rents to facilitate the lessees purchasing, but only three out of a total of 86 availed themselves of the opportunity.

A surveyor recently bought land at Highbury and let shop plots at a ground rent, intending to sell the ground rents. When the shops were built, he bought

back the leases of two of them from the builder. His solicitor asked "You will keep the ground rents on these shops and make them freehold?" He replied, "No, why should I? If people are willing to buy my ground rents at 25 years' purchase—that is, practically to lend me money at 4 per cent.—why should I not take it?" These are mere examples of cases that can be cited *ad lib.* by most London surveyors or land agents.

Sir Sydney H. Waterlow, the Chairman of the "Improved Industrial Dwellings Company," than whom few have greater experience, told the Royal Commission that his Company have half freehold and half leasehold, and he prefers the latter.

This opinion is very largely concurred in by house owners in general, not merely from an investor's point of view, but also as occupiers.

On leasehold estates the roads are often better laid out, and the class of house better adapted to the locality, whilst the residents are generally more or less protected by the freeholder against the erection of inferior property or unsightly outhouses, or the

carrying on of offensive trades. As regards the proximity of inferior property, anything tending to separate the classes and drive the well-to-do out of a neighbourhood is to be regretted. This evil would often, however, be aggravated if all restrictions were removed from leasehold estates, which, in many cases, are like oases in the desert, and cause money to flow into adjacent poorer neighbourhoods. Public regulations, it is alleged, would meet the requirements of the case, but few believe it.

It is well known that some individuals have money they cannot profitably employ, and others have profitable employment for money they do not possess. The business of the community is largely conducted by the co-operation of these individuals. It is the *raison d'être* of mortgages, and it applies equally to ground rents, which in many respects partake of the nature of mortgages, and which have the advantage that neither party can be disturbed at the will of the other, whereas with a mortgage a lender may have his money paid off when he does not want it; but the more serious disadvantage is, that the borrower may be called upon to pay off when he cannot do so, incurring the expense of

re-mortgaging, and sometimes, when unable to do this, losing his property in consequence. Over many borrowers the possibility of this hangs as a black cloud which they would willingly remove by creating a ground rent.

In the interest of lessees, as a class, the tampering with the leasehold system should be protested against. It would have the usual result of dishonesty. Present lessees might profit, at the expense of their own honour, but to the disadvantage of future would-be lessees, whose market would be more or less contracted. Lessees may be likened to mortgagees, in whose interest, as in the case of other borrowers, nothing should be done to discredit the securities they have to offer.*

* The following illustrates how a freehold property may be divided. Suppose a freehold producing £120 per annum net can be bought to pay 6 per cent., *i.e.*, for £2,000. B has £1,000 he wishes to employ at a good rate of interest, and could look after the property. He knows A, who wants to secure, without trouble, a fixed, though it may be, only a moderate rate of interest. B gets A to buy the freehold for £2,000, and gives him £1,000 for a lease of 99 years at £40 ground-rent. A thus gets 4 per cent. on his £1,000,

Because we have a few instances of large accumulations of ground rents in the hands of individuals are the interests of the community at large to be unjustly attacked, the public conscience being soothed by the delusion that only the wealthy are being injured? Even were this the case, which it most decidedly is not, every species of property might be attacked for the same reason.

The systems of house tenure on the Continent have been referred to, but they do not help the

and B, 8 per cent. on his £1,000, each being suited with a part of the property, though as a whole it would have suited neither. The vendor also effects a sale which suits him, but in practice he would probably in this manner make more than £1,000 of the leasehold. B's term, it is true, expires at the end of 99 years, to provide against which would reduce his interest of 8 per cent. by nearly 10d. per cent. (See note, page 12.) Suppose he had bought the freehold himself, and borrowed £1,000 on mortgage at 4 per cent., he would equally have obtained 8 per cent. on his own money, but he would have had the additional expense of the conveyance, which alone would cost several times as much as the sinking fund capitalised. He would, too, be liable to have the mortgage called in at any time (creating further expense), and if this should be done when money was dear, or property depressed, he would have to pay higher interest on re-mortgaging.

"Leaseholds Enfranchisement Association." In no country can we find that contracts for *letting* for a specified period can, at the will of one of the parties, be converted into a *sale* at a price to be fixed by someone else, as the "L.E.A." recommend.

And nowhere, I believe, are parties, who may think it to their mutual interest to grant and take a lease, prohibited from doing so. That the leasehold system in some countries may be little, if at all, in vogue, is doubtless, in part, due to ignorance of its advantages, and especially to the limited amount of highly valuable building land. Indeed, in our more distant suburbs, where land is less valuable, we find a smaller proportion of leasehold. Land in the City often costs far more itself, than it costs to build on it, whilst in the suburbs it is the reverse.

Another example may be given of the inconsistency of the arguments advanced against the leasehold system. One M.P. complains that the leasehold system restricts house accommodation, because leaseholders cannot afford to put lofty buildings on land that does not belong to them; whilst another M.P. alludes to blocks of dwellings in Bethnal Green

"reaching almost as high as Babel, in the futile attempt to escape the rapacity of the ground landlord."

The simple truth is that the height will be mainly regulated by the demand for dwellings in the locality—that is, whether the upper stories will command sufficient rent to pay interest on the extra cost. As regards the Babel comparison, it is understood that, of the two largest estates in Bethnal Green that have been utilised for blocks of lofty Model Dwellings, one was built by the "Improved Industrial Dwellings Company," who, as before stated, prefer leasehold to freehold, whilst the other and loftier was built by the freeholder himself. He has since created ground rents on the property, and sold them with the reversion; undertaking, doubtless, to pay all rates: thus himself becoming voluntarily a lessee, and affording another illustration of the practice referred to on page 10. It will be interesting to know whether this voluntary lessee (a Parnellite M.P.) will vote in favour of "Taxing ground rents" and "Leasehold Enfranchisement." Were these schemes enacted, it would in his, as in hundreds of thousands of other cases, be a refutation

of the well-worn proverb that "One cannot eat the cake and have it too."

In cases where the freehold of a town belongs entirely to one man it is, perhaps, a disadvantage, and, if so, it may be hoped that with greater facilities for land transfer,* especially for severing small pieces from large estates, a different order of things will grow up naturally. In London we have had recent instances of large estates being split up, and this will become more general from the practice that is extending, as already mentioned, of granting a separate lease for each house.

At any rate more harm than good will come of attempting to force it by measures so manifestly unjust as "Freehold Disfranchisement" or the special taxation of ground rents. Some who see the disadvantages in a uniform system, existing in certain provincial towns, run into the opposite error of

* As regards the transfer of land, it is claimed that, in consequence of the facilities given by recent legislation, there is practically no land which may not become the subject of sale, and that it may be acquired, as far as the legal expenses are concerned, at a moderate cost to the purchaser. Many, however, hope for further improvements in these respects.

wishing to enforce another uniform system upon the whole country, which would be especially injurious to liberty in London, where the circumstances are various, and where we now have all systems working side by side, and individuals have the opportunity of satisfying their respective requirements. The ground-rent system is especially applicable to London and other large towns, where land is so very valuable that few builders are able to purchase it. It may be said, let the owners build themselves; but few care to do this, as they cannot lay out money so advantageously as the builders, and the interests of the community are consulted by promoting the cheapest mode of production. The system has grown up with time, and, as has been shown, is very extensively adopted by lessors and lessees when each party has the option of another course. The presumption is, therefore, that it has an inherent suitability to the surrounding circumstances, and this presumption is confirmed upon investigation.

A well-known ex-M.P., Professor of	Theory
Political Economy, Economic Science,	v.
&c., is the Chairman of a Land Com-	Experience.

pany whose prospectus announced the following as some of their objects :—

“The purchase and enfranchisement of Leasehold Estates and their resale as Freeholds, and the enabling of members of all classes of the community to reside in their own *freehold* houses.”

Ill construction, and bad drainage were ascribed to the system of building leases, and a main branch of their enterprise was to be the promotion of freehold tenures.

It is a remarkable commentary on these intentions and opinions, that this Land Company, having purchased a large estate in London, are now letting it on building leases.

“*Leasehold Enfranchisement*”* or “*Freehold Appropriation*.”

It is represented that “Leasehold Enfranchise-

* The remarks under this head are few, but several incidental references appear in other sections. For a comprehensive yet interesting treatment of the question, Mr. Eiloart's pamphlet, “*Leasehold Aggrandisement*,” published by the Liberty and Property Defence League, should be read.

ment” is analogous to Copyhold Enfranchisement. The two things are, however, totally distinct. The leasehold system, as we have shown, is being daily adopted by men of business, whilst copyhold tenure is becoming obsolete. No one would think of creating new copyholds on economic grounds, the fact being that the subordinate interest would be prejudiced to a greater extent than the value of the superior interest.

The so-called Leasehold Enfranchisement Bill, drawn by Mr. Broadhurst and his friends, proposed to give any lessee, having more than twenty years unexpired, the power to purchase at a price to be fixed by a county court judge or jury.

The nullifying of agreements between lessor and lessee, whether for the purpose of enabling the latter to evade payment of rates, or to acquire the freehold at a price to be fixed by someone else, appears to be nothing short of legalising private robbery. It is very different from taking land for public purposes; and the principle (if there is any principle in it) may be made to apply to all kinds of property. As regards compulsory sale, it is well known that payment at the market value would often be insufficient

compensation, as estates might be greatly prejudiced by taking plots out here and there, and to many ground-rent owners, disturbance, and the consequent necessity of re-investing, would be a serious inconvenience, if not loss. Some have proposed a uniform rate of payment, for instance, 25 years' purchase. This proposition manifests extreme ignorance, as some ground rents, even when the lease is still long, say over 90 years, readily sell in the market for considerably more, and others will not realise nearly so much, whilst as the lease runs out and the reversion approaches, the freeholder's accumulated capital (which the ground rent carries) gradually enhances its value. The injustice and absurdity of a uniform price are even more striking when considered in reference to practically nominal ground rents as referred to on page 10. Other "freehold appropriators" would allow nothing in the price for a reversion more than 35 years distant. In the north of London a ground rent of £1, with a longer term than this to run, was recently sold for over £2,000. The vendors were a Charity. Ought they to have been compelled to sell for, say £25, or ought the purchaser from them to be compelled to

do so? Recently a large ground rent in Threadneedle Street, with 73 years to run, sold for 33 years' purchase. Innumerable similar cases could be given.

*Twenty-one year and other Leases would be abolished.
(A warning to Lessees.)*

The arguments against leases at a ground rent may be equally used against 21-year or other leases at rack rents. Are these to be forbidden? is the lessee to be relieved of rates he has agreed to pay, and to have the right to purchase though he only agreed to rent? Once spoliation begins why should the line be drawn at 21 years, and if so drawn at first will it not be altered afterwards? Indeed, one member of the "L.E.A.," a barrister, and late candidate for Parliament, already recommends fixing the limit at ten years. Suppose a man has shops in several places and lets them all on 21-year leases. Some of these places will improve for trade and others decline. Where they improve his shops will be taken away, although his tenants will have enjoyed the improvement during their term, but where the shops decline he will be allowed to keep them. This will be the sequel to placing

one's eggs in different baskets, a practice which has hitherto been generally commended. This is no fanciful picture, and it cannot be too widely known, especially by lessees whose assumed cupidity the "enfranchisers" hope to practise upon, that one pamphlet issued by the Leaseholds Enfranchisement Association, and written by a solicitor, to boot, says the Bills hitherto brought into Parliament are inadequate, and suggests that any *bona fide* occupier of a house for, say, five years, shall have the right to purchase all superior interests. All the measures in question would mulct the grantors of long leases, and yet the same set of crotcheteers advocate the granting of long terms as in the interests of tenants. As to long leases it should be remembered that there is a reverse side to the picture. When house property or agriculture declines are not those tenants fortunate who have no leases at all? The crotcheteers, however, would doubtless be equal to the occasion. Their sense of justice to the tenant is so all-absorbing that they have none left for anyone else. They would obviously want to legalise the tenant repudiating his lease, should the times turn against him. They

appear to be incapable of seeing even the proverbial one side of a question. They do not realise that a "lease is a speculation by which sometimes one party gains and sometimes the other; but contains no element which justifies the losing party in claiming legislative assistance never proposed on behalf of any other speculator whatever." The legislative proposals referred to would stop leasing altogether, and the "five-year" notion would render it necessary to change tenants once at least every four years in order to prevent property being alienated, whilst to let at a low rent would furnish a pretext for fixing a low price.

Faith in Contracts the Basis of Trade.

In conclusion, I may say that I sympathise with some of the professed objects of those I have criticised, for instance, the encouragement of thrift and the comfortable housing of the poor; but, no matter under what high-sounding names recommended, both plunder and pauperisation must be protested against, as well in the interests of the working classes as of all others. As one correspondent remarks, faith in the State upholding the law of contract is the very basis upon which all the interests of the community are founded; but many

fail to realise the truth of the statement without illustration. As an example, a tradesman will not employ labour to make stock for his shop, unless confident that the law will protect his property while exposed for sale. A man will be deterred from buying land or building unless allowed to let or sell in the best way he can. People will not subscribe the capital for Railway, Canal, Dock, Lighting or other Companies, except in the faith that they will be allowed to enjoy the profits of their investment. When people fail to realise that their well-being generally rests with themselves, and not in legislation, they become unsettled for business, and they unsettle others. Some are occupied with ideas of appropriating what they have not earned, and others have their attention absorbed in defending what they already have, rather than in trying to increase it, whereby work would be given and trade promoted. Are not hundreds of works now being deferred from these causes, more especially where, as is often the case, one's own capital has to be supplemented by borrowing? To these causes are probably due much of the prevailing depression of trade, which, in order to be brisk, requires to be animated by hope and confidence.

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